

Gratuity Calculation UAE

A gesture of an organization's gratitude for an employee's loyal service is the basic notion behind the remuneration of gratuity. This simple gesture has become strictly governed by the law to ensure the employee's well-being. A gratuity helps a lot of these employees as elementary sustenance, at the least temporarily before they start fresh.

The payment of gratuity is governed by various guidelines mention in the UAE Labor Laws.

An employee is eligible to receive gratuity after a minimum service period of one year.

Though in many cases the remuneration of gratuity is considered as a platform for retirement clearance, it virtually cannot be deliberated so.

Eligibility and Laws Governing the Scenario:

If an employee resigns or is terminated from his position in the establishment, he is entitled to gratuity provided he has completed a required minimum of the period and was not terminated based on misconduct.

- *The minimum required period of service is one year.*
- *The provided guidelines may have a slight variation based on the type contract signed by the employee i.e., Limited Contract or Unlimited Contract.*
- *Variable gratuity payment schemes are prescribed based on four scenarios that may be considered which shall be discussed in detail later in the article.*
 - 1.Terminated in a period less than a year.*
 - 2.Between a period of more than one year but less than three years*
 - 3.Between a period of more than three years but less than five years*
 - 4.After more than five years*
- *UAE Labor Law Article 132 describes the gratuity allowance depending on the period of service scenario.*
- *UAE Labor Law Article 134 describes the specificity of the type of remuneration considered as gratuity.*
- *The article states that payments made to the employee as compensations, housing, travel stipend, overtime wage, teller's allowances, child education allowance, allowances for social services, and any other bonuses will not be included or considered as payment in the confidence of gratuity.*

- Article 139, Article 120, Article 121, etc., specifies the conditions under which the organization may or may not be liable to the payment of the gratuity:
 1. The first scenario shall be considered in the case of termination of the employee due to misconduct, negligence, property destruction, etc.
 2. The second scenarios come into consideration, if there is a breach of contract by the employer or an assault which may have forced the employee to resign without notice, and is strictly inspected under the legal guidelines

Limited Contract and Unlimited Contract (Gratuity Calculation in UAE):

1. Limited-term contract

- This type of contract is time-bound with a specific period of service demanded and is signed by the employer and employee. The breach of this contract is virtually illicit.
- As per the labor employment laws of UAE, the maximum time allocated for a limited contract is 2 years which was reduced from a term of 4 years.
- For further extension of the period of service, the contract must be renewed or signed novel.

2. Unlimited term contracts

- There is no specific minimum or maximum period for this form of employment.
- If the employee has to be terminated a notice must be served 30 – 90 days before the termination.
- This kind of agreement is on mutual consent, therefore the enforcement from legal bodies is minimal and terms and conditions are established by the organization unlike the government procedures as in case of limited contract.
- Legal proceedings can be prescribed in case of fraud or employee maltreatment or wrongful termination.

The previously mentioned gratuity payment schemes based on the period of service shall be elaborated here:

Limited Contract gratuity fund

- i. If the service was terminated in less than a year then the organization is not accountable to pay the gratuity fund.

ii. If the service of the employee is terminated anywhere between the first year and the fifth year the employee is entitled to be paid the full gratuity fund accounting as wages for 21 days of service for each year.

iii. If the employee is terminated after the completion of five years, the employee is entitled to be paid the full gratuity fund which accounted for 30 days of wages for each year completed.

Unlimited Contract gratuity fund

i. As previously mentioned even in the case of the unlimited contract no gratuity shall be paid if the employment is terminated before the completion of a year.

ii. If the employment is terminated anywhere between the 1st and 3rd year of employment then the gratuity paid is accounted as one-third of the wages for 21 days of service.

iii. If the employment is terminated anywhere between the 3rd and 5th year of employment then the gratuity paid is accounted as two-third of the wages for 21 days of service.

On conclusion of service for 5 years or more then the employee is entitled to the comprehensive payment of gratuity as 21 days of wages for each year of service.

How to Calculate your Gratuity in UAE?

The Formula used for the Calculation of Gratuity:

Limited Contract:

- $\text{Elementary pay} \div 30 = \text{Daily wage}$
- $\text{Daily wage} \times 21 = 1\text{-year gratuity owed}$
- $1\text{-year gratuity owed} \times \text{years of service} = \text{Total gratuity owed}$

Unlimited Contract:

- $\text{Elementary pay} \div 30 = \text{Daily wage}$
- $\text{Daily wage} \times 21 = \text{gratuity owed for 1 year}$
- $\text{Gratuity owed for one year} \times \text{years of service} = \text{Total gratuity owed}$
- $\text{Total gratuity owed} \div 3 = \text{One-third of total gratuity owed}$
- $\text{One-third of gratuity owed for 1-3 years of service}$

- *Two- third of gratuity owed for 3-5 years of service*
- *After the end of 5 years, the total gratuity owed is remunerated*

In case an employee was under limited contract for 2 years and then moves to sign an unlimited contract for the next tenure, the two years previously spent under the limited contract shall be considered as the whole term of service under the unlimited contract and the gratuity shall be paid so.

Irrespective of the contract the employee who toils for the organization is entitled to gratuity.

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